



IN REPLY REFER TO:

MT-730
WTR- 4.03

United States Department of the Interior

BUREAU OF RECLAMATION
Great Plains Region
Montana Area Office
P.O. Box 30137
Billings, Montana 59107-0137

MAR 14 2006



EXHIBIT 1
DATE 1-19-07
HB 6, 8.

Mr. Kelly Christenot, Chairman
Chester Irrigation Project
P.O. Box 582
Chester, MT 59522

Subject: Chester Irrigation Project, LLC (CIP) - Water Contract Inquiry

Dear Mr. Christenot:

Thank you for your February 1, 2006, letter concerning requirements and costs of securing a water contract for CIP. You stated you are considering the development of a 40,000 acre irrigation project in Liberty County using stored water from Lake Elwell. Your letter requests the desire to begin negotiations with the Bureau of Reclamation for a water contract. We respect that request and offer responses to your specific questions in the following pages.

1. What is Reclamation's requirement for obtaining a water contract for this amount of water?

Some of the specific requirements for obtaining a water contract are:

Evidence of the Corporation's authority under Montana State Law to commit to a long term contract with the United States Government and the Corporation's financial ability to meet all required fiscal obligations. The Corporation will be required to get confirmation of their legal ability to enter into a contract with the United States Government from a state or federal court before the contract can be fully executed. This may require forming a district or water supply company under Title 85 (Water Uses) of the Montana Code Annotated.

Legal land descriptions and maps with PLSS sections in State Plane Coordinates and NAD 83 datum of the area to be irrigated with project water. There are limits on the total number of irrigated acres that any one entity may include in a contract that receives water from a Reclamation project.

Estimate of the annual maximum acre-feet of water required from Lake Elwell, to irrigate the proposed lands. All water taken from Lake Elwell will be measured at the point(s) of diversion established on the reservoir. Any and all conveyance losses will be your responsibility and need to be included in your water request.

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EXHIBIT

Provide all of the proposed point of diversion and routes of and method of conveyance from Lake Elwell on maps with PLSS sections in State Plane Coordinates and NAD 83 datum. The land surrounding Lake Elwell is the property of the United States. Reclamation will require a Special Use Permit(s) (SUP) for any use of those lands for retrieving and conveying water for a water contract. There is a \$200 minimum administrative fee that will be assessed with each SUP, plus any other administrative cost associated with its preparation. The associated cost will likely include a right-of-way use fee, the value of which is determined by impact of the proposed project and by local land values. These fees must be paid in advance in order to be granted a SUP.

2. Based on your letter of March 7, 2005, regarding "administrative costs," when does Reclamation begin charging administrative cost to the CIP?

The reimbursable administrative costs begin once the formal request to begin developing a contract has been provided to Reclamation.

After the CIP has provided a plan of the proposed diversion, conveyance routes and lands to be irrigated in detail as clarified under question number 1, Reclamation can prepare an estimate of the anticipated costs. These costs will include all activities associated with the development a water contract as listed in the attachments to the March 7, 2005, letter to you (copy enclosed). Reclamation will provide you with an estimate of these costs and review them with you. A written agreement must be executed between you and Reclamation. The agreement will list activities, responsibilities, and payment obligations for the contracting action. This agreement must be executed and a portion of the money paid by you before Reclamation can proceed.

3. What is the fee schedule for Reclamation costs that are recoverable from the CIP?

There is not a specific fee schedule for Reclamation costs. They are individually determined depending on the proposed scope of work. Recoverable costs include such items as:

The costs for obtaining a water contract can be segregated into two major categories. They are the cost of preparing the appropriate document to comply with the National Environmental Policy Act (NEPA) and other related laws and regulations and the cost associated directly with processing of the water contract. Rough estimates of the cost, based on our knowledge of the proposed project, are provided below. A refined estimate will be provided when additional details of the proposed project are provided by the CIP.

An estimate of the cost to comply with NEPA was provided in a March 7, 2005, letter to the CIP. The cost estimate was based on information we had about the proposed project and the potentially significant issues that may need to be addressed during the process of preparing the appropriate NEPA compliance. The estimated cost ranged between \$1 and \$3 million. The NEPA cost will be refined once more details of the proposed project are provided.

The estimated cost of completing the contract negotiation process is between \$100,000 and \$200,000. These estimates maybe refined once the proposed scope of the project is better

defined. Estimated cost will depend on the potential complexity of the contract development and negotiations and when the negotiations are expected to commence.

All costs incurred by Reclamation to complete the NEPA compliance and contracting activities are considered reimbursable from the contractor requesting the contract and must be paid in advance by the contractor. The costs include such items as staff time and costs, travel expenses, potential contracts with sub-contractors, etc.

4. When does the Bureau decide the level of NEPA compliance document that is necessary?

The decision as to the appropriate document necessary to comply with NEPA will depend on the proposed plan submitted by the CIP and the potentially significant issues that need to be addressed as a result of that plan. Once the plans are provided by CIP for their proposed plan for the irrigation development, Reclamation can conduct some scoping to determine the potentially significant issues. The March 7, 2005, letter to the CIP indicated that an Environmental Impact Statement and subsequent Record of Decision would be the likely NEPA compliance document necessary for reasons stated in that letter. Reclamation will re-evaluate the necessary NEPA compliance document once the details of the proposed project are better defined.

5. What are the other Reclamation issues that the CIP Steering Committee should begin addressing at this time?

At this time we are unaware of any specific issues that need to be addressed by CIP. Reclamation is available to meet with you to discuss the information in this letter and discuss other issues that come to surface. Please let us know what would be convenient for CIP.

Should you have any further questions, please do not hesitate to call Brent Esplin at 406-247-7341, Stephanie Hellekson at 406-247-7306, or Karen Russell at 406-247-7488.

Sincerely,



Lenny Duberstein, Manager
Planning & Project Development Division

Enclosures